



# OUR VIEW

A Quarterly Newsletter from Sabal Trust Company

Second Quarter 2016

## “POINTS OF CLARITY”

Viewing today's world through a set of risk management lenses allows investors to adopt a cautious, yet more upbeat tone than seen in the press headlines. Market volatility, elevated uncertainty, and heightened stress characterize the current investment environment. However, ***a healthier consumer, financially stable business sector, and continuing recovery in the housing market offer a strong foundation for the domestic economy.***

## CONSUMER:

A healthy U.S. consumer remains a bright domestic beacon against a murky global economic backdrop. An improving domestic labor market, greater consumer confidence and slowly increasing wages position the consumer to be a viable contributor to future economic growth. Furthermore, the economic benefits of the “energy dividend”, which is the potential economic gain for consumers from low energy prices, have yet to materialize. Instead of spending these dollars, ***consumers have increased savings rates and reduced debt, which constructively positions a critical driver of the domestic economy.***

## ECONOMIC GROWTH:

The cyclical nature of the economy remains firmly entrenched. ***The U.S. economy continues to show signs of life and is expected to produce modest growth rates*** of approximately 2.5%. This growth is healthy enough to fuel earnings of many high-quality companies that do not require a rapid expansion to drive their business operations. However, the structural and cyclical pressures exerting themselves on the global economy will persist as investors and businesses recalibrate expectations for the Euro-zone, emerging markets and China. This process of expectation adjustment inevitably leads to market volatility as well as the identification of strategic investment opportunities.

## ENERGY MARKETS:

Concerns over dramatically low energy commodity prices and the impact on companies operating across all levels of the oil industry dominate headlines. Specifically, the economic pressures associated with lower prices have led to draconian measures taken by oil service companies, including layoffs, reduction of capital expenditures, dividend cuts and other cost savings initiatives. From a longer-term perspective, ***cyclical sectors of the economy will inevitably experience boom-bust periods and endure phases of expansion and contraction.*** Eventually, high-quality operators with well-diversified business models and stable financials will emerge from this tumultuous period.

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## Stock Focus Sysco Foods

Sysco, founded in 1969, is a leader in selling, marketing and distributing food products, equipment and supplies to a wide range of customers. The company maintains twice the level of sales compared to its next largest competitor and distributes more than 400,000 products to 425,000 customers. Sysco possesses healthy financials built on strong cash flows, which allow the company to strategically reinvest in their business operations and reward shareholders through a long history of steadily increasing dividends.



Stock Symbol: **SYF**

Market Capitalization: **\$25B**

Dividend Yield: **2.8%**

Long Term Earnings: **9%**

2016 P/E: **21.3x**

Return on Equity: **13%**

## INTEREST RATES:

The debate over Monetary Policy direction continues to drive market expectations. After raising short-term rates in December, policy makers attempted to telegraph a potential series of four rate increases over the subsequent 12 months. Uncertainty regarding global economic growth, market volatility and questions about core inflation are causing a re-assessment of future rate decisions. ***The Federal Reserve will rely heavily on inputs from the labor markets as well as inflation measures before pushing short-term rates any higher.*** Given the broader economy's uneven recovery and the absence of meaningful inflation, it is likely that policy makers will be less aggressive when increasing rates this year.

## CURRENCY:

Global currencies play a multi-faceted role in shaping the investment landscape as the foreign exchange markets ensure the flow of capital across borders and allow companies to hedge their day-to-day business operations. A strong Dollar fueled by higher domestic interest rates, relative to global benchmarks is reducing export demand because domestically-produced goods have become more expensive for foreign buyers. Furthermore, foreign earnings of domestically-based multi-national companies face downward pressures. It is important to note that these ***currency headwinds will eventually turn to tailwinds because of the cyclical nature of the foreign exchange markets.***

## OUTLOOK & STRATEGY:

In an environment characterized by muted inflation and aggressive stimulus from global central banks, the path of global growth remains in question as policy-makers deal with both cyclical and structural factors. Continued fluctuations of both equity and fixed income markets are likely through the balance of the year due to economic, political and public policy related issues. Against a backdrop tainted with a negative hue, ***navigating the current landscape requires patience, careful management of emotions, and a focus on risk reduction while exploring investment opportunities.*** Completely eliminating price volatility from an invested portfolio is impossible. The protection of assets is achievable through an appropriately allocated portfolio of select dividend-paying companies and investment grade bonds which serve as the foundation of a solid long-term investment strategy.

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